PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
February 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
[ü] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to _________________

Commission File Number 000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	33-0704889
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3756 Central Avenue, Riverside, California 92506
(Address of principal executive offices and zip code)

(951) 686-6060
(Registrant's telephone number, including area code)

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(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ü No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ü No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No ü .

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of class:	As of January 31, 2018
Common stock, $ 0.01 par value, per share	7,477,776 shares

PROVIDENT FINANCIAL HOLDINGS, INC.

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Financial Condition
(Unaudited)
In Thousands, Except Share Information

	December 31, 2017	June 30, 2017
Assets		
Cash and cash equivalents	$47,173	$72,826
Investment securities – held to maturity, at cost	87,626	60,441
Investment securities – available for sale, at fair value	8,405	9,318
Loans held for investment, net of allowance for loan losses of $8,075 and $8,039, respectively; includes $5,157 and $6,445 at fair value, respectively	885,976	904,919
Loans held for sale, at fair value	96,589	116,548
Accrued interest receivable	3,147	2,915
Real estate owned, net	621	1,615
Federal Home Loan Bank (“FHLB”) – San Francisco stock	8,108	8,108
Premises and equipment, net	7,816	6,641
Prepaid expenses and other assets	16,670	17,302
Total assets	$1,162,131	$1,200,633
Liabilities and Stockholders’ Equity		
Liabilities:		
Non interest-bearing deposits	$77,144	$77,917
Interest-bearing deposits	830,644	848,604
Total deposits	907,788	926,521
Borrowings	111,189	126,226
Accounts payable, accrued interest and other liabilities	22,454	19,656
Total liabilities	1,041,431	1,072,403
Commitments and Contingencies		
Stockholders’ equity:		
Preferred stock, $.01 par value (2,000,000 shares authorized; none issued and outstanding)	—	—
Common stock, $.01 par value (40,000,000 shares authorized; 17,976,615 and 17,949,365 shares issued; 7,474,776 and 7,714,052 shares outstanding, respectively)	180	180
Additional paid-in capital	94,011	93,209
Retained earnings	189,610	192,754
Treasury stock at cost (10,501,839 and 10,235,313 shares, respectively)	(163,311)	(158,142)
Accumulated other comprehensive income, net of tax	210	229
Total stockholders’ equity	120,700	128,230

Total liabilities and stockholders' equity	$ 1,162,131	$ 1,200,633

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)
In Thousands, Except Per Share Information

	Quarter Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Interest income:				
Loans receivable, net	$9,735	$10,116	$19,892	$20,596
Investment securities	319	128	576	212
FHLB – San Francisco stock	143	458	284	643
Interest-earning deposits	168	101	358	156
Total interest income	10,365	10,803	21,110	21,607
Interest expense:				
Checking and money market deposits	112	105	215	203
Savings deposits	149	146	298	290
Time deposits	625	731	1,264	1,503
Borrowings	728	736	1,464	1,438
Total interest expense	1,614	1,718	3,241	3,434
Net interest income	8,751	9,085	17,869	18,173
(Recovery) provision for loan losses	(11)	(350)	158	(500)
Net interest income, after (recovery) provision for loan losses	8,762	9,435	17,711	18,673
Non-interest income:				
Loan servicing and other fees	317	310	680	577
Gain on sale of loans, net	4,317	6,478	9,164	14,474
Deposit account fees	536	552	1,094	1,102
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(22)	(63)	(62)	(166)
Card and processing fees	373	361	754	725
Other	220	194	463	372
Total non-interest income	5,741	7,832	12,093	17,084
Non-interest expense:				
Salaries and employee benefits	8,633	10,349	17,902	21,663
Premises and occupancy	1,260	1,235	2,574	2,524
Equipment	375	340	737	702
Professional expenses	521	630	1,041	1,135
Sales and marketing expenses	301	253	504	549
Deposit insurance premiums and regulatory assessments	218	177	402	425
Other(1)	1,905	1,684	5,787	3,302
Total non-interest expense	13,213	14,668	28,947	30,300
Income before income taxes	1,290	2,599	857	5,457
Provision for income taxes(2)	2,067	1,095	1,859	2,359
Net (loss) income	$(777)	$1,504	$(1,002)	$3,098

Basic (loss) earnings per share	$(0.10)	$0.19	$(0.13)	$0.39
Diluted (loss) earnings per share	$(0.10)	$0.18	$(0.13)	$0.38
Cash dividends per share	$0.14	$0.13	$0.28	$0.26

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(1) Includes $650,000 of litigation expense accrual related to "McKeen-Chaplin" and "Neal" matters for the quarter ended December 31, 2017 and $3.4 million of litigation expense accruals related to "McKeen-Chaplin," "Neal" and "Cannon" matters for the six months ended December 31, 2017.

(2) Includes a net tax charge of $1.8 million resulting from the revaluation of net deferred tax assets consistent with the Tax Cuts and Jobs Act for the quarter and six months ended December 31, 2017.

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
In Thousands

	For the Quarters Ended December 31,		For the Six Months Ended December 31,	
	2017	2016	2017	2016
Net (loss) income	$(777)	$1,504	$(1,002)	$3,098
Change in unrealized holding loss on securities available for sale	(80)	(28)	(78)	(84)
Reclassification adjustment for net loss on securities available for sale included in net loss	45	—	45	—
Other comprehensive loss, before income taxes	(35)	(28)	(33)	(84)
Income tax benefit	(15)	(12)	(14)	(35)
Other comprehensive loss	(20)	(16)	(19)	(49)
Total comprehensive (loss) income	$(797)	$1,488	$(1,021)	$3,049

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
In Thousands, Except Share Information

For the Quarters Ended December 31, 2017 and 2016:

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at September 30, 2017	7,609,552	$ 180	$ 93,669	$ 191,451	$ (160,609)	$ 230	$ 124,921
Net loss				(777)			(777)
Other comprehensive loss						(20)	(20)
Purchase of treasury stock	(140,526)				(2,702)		(2,702)
Exercise of stock options	5,750		84				84
Amortization of restricted stock			142				142
Stock options expense			116				116
Cash dividends[1]				(1,064)			(1,064)
Balance at December 31, 2017	7,474,776	$ 180	$ 94,011	$ 189,610	$ (163,311)	$ 210	$ 120,700

[1] Cash dividends of $0.14 per share were paid in the quarter ended December 31, 2017.

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at September 30, 2016	7,978,166	$ 178	$ 91,633	$ 192,227	$ (151,095)	$ 280	$ 133,223
Net income				1,504			1,504
Other comprehensive loss						(16)	(16)
Purchase of treasury stock	(85,800)				(1,659)		(1,659)
Exercise of stock options	22,750	1	267				268
Amortization of restricted stock			133				133
Awards of restricted stock			(25)		25		—
Forfeiture of restricted stock			73		(73)		—
Stock options expense			142				142
Tax effect from stock-based compensation			(8)				(8)
Cash dividends[1]				(1,032)			(1,032)
Balance at December 31, 2016	7,915,116	$ 179	$ 92,215	$ 192,699	$ (152,802)	$ 264	$ 132,555

[1] Cash dividends of $0.13 per share were paid in the quarter ended December 31, 2016.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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For the Six Months Ended December 31, 2017 and 2016:

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at June 30, 2017	7,714,052	$ 180	$ 93,209	$ 192,754	$ (158,142)	$ 229	$ 128,230
Net loss				(1,002)			(1,002)
Other comprehensive loss						(19)	(19)
Purchase of treasury stock	(266,526)				(5,152)		(5,152)
Exercise of stock options	27,250		261				261
Amortization of restricted stock			291				291
Forfeitures of restricted stock			17		(17)		—
Stock options expense			233				233
Cash dividends[1]				(2,142)			(2,142)
Balance at December 31, 2017	7,474,776	$ 180	$ 94,011	$ 189,610	$ (163,311)	$ 210	$ 120,700

[1] Cash dividends of $0.28 per share were paid in the six months ended December 31, 2017.

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at June 30, 2016	7,975,250	$ 178	$ 90,802	$ 191,666	$ (149,508)	$ 313	$ 133,451
Net income				3,098			3,098
Other comprehensive loss						(49)	(49)
Purchase of treasury stock[1]	(171,634)				(3,321)		(3,321)
Exercise of stock options	23,750	1	284				285
Distribution of restricted stock	87,750						—
Amortization of restricted stock			495				495
Awards of restricted stock			(161)		161		—
Forfeitures of restricted stock			134		(134)		—
Stock options expense			482				482
Tax effect from stock-based compensation			179				179
Cash dividends[2]				(2,065)			(2,065)
Balance at December 31, 2016	7,915,116	$ 179	$ 92,215	$ 192,699	$ (152,802)	$ 264	$ 132,555

[1] Includes the repurchase of 25,598 shares of distributed restricted stock in settlement of employee withholding tax obligations.
[2] Cash dividends of $0.26 per share were paid in the six months ended December 31, 2016.

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited - In Thousands)

	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Cash flows from operating activities:		
Net (loss) income	$(1,002)	$3,098
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,582	1,334
Provision (recovery) for loan losses	158	(500)
(Recovery) provision of losses on real estate owned	(552)	76
Gain on sale of loans, net	(9,164)	(14,474)
Loss (gain) on sale of real estate owned, net	580	(33)
Stock-based compensation	524	977
(Benefit) provision for deferred income taxes	(79)	1,504
Tax effect from stock based compensation	—	(179)
Increase in accounts payable, accrued interest and other liabilities	3,278	3,441
Increase in prepaid expenses and other assets	(306)	(497)
Loans originated for sale	(724,156)	(1,189,253)
Proceeds from sale of loans	753,571	1,230,321
Net cash provided by operating activities	24,434	35,815
Cash flows from investing activities:		
Decrease (increase) in loans held for investment, net	17,548	(29,008)
Principal payments from investment securities held to maturity	10,837	6,252
Principal payments from investment securities available for sale	885	1,044
Purchase of investment securities held to maturity	(38,511)	—
Proceeds from sale of real estate owned	1,587	857
Purchase of premises and equipment	(1,589)	(185)
Net cash used for investing activities	(9,243)	(21,040)
Cash flows from financing activities:		
(Decrease) increase in deposits, net	(18,733)	2,289
Repayments of short-term borrowings, net	(15,000)	—
Proceeds from long-term borrowings	—	20,000
Repayments of long-term borrowings	(37)	(36)
Exercise of stock options	261	285
Withholding taxes on stock based compensation	(41)	(501)
Tax effect from stock based compensation	—	179
Cash dividends	(2,142)	(2,065)
Treasury stock purchases	(5,152)	(3,321)
Net cash (used for) provided by financing activities	(40,844)	16,830
Net (decrease) increase in cash and cash equivalents	(25,653)	31,605
Cash and cash equivalents at beginning of period	72,826	51,206
Cash and cash equivalents at end of period	$47,173	$82,811
Supplemental information:		
Cash paid for interest	$3,252	$3,411

Cash paid for income taxes	$2,350	$ 1,934
Transfer of loans held for sale to held for investment	$521	$ 1,584
Real estate acquired in the settlement of loans	$700	$ 1,298

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PROVIDENT FINANCIAL HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. All such adjustments are of a normal, recurring nature. The condensed consolidated statement of financial condition at June 30, 2017 is derived from the audited consolidated financial statements of Provident Financial Holdings, Inc. and its wholly-owned subsidiary, Provident Savings Bank, F.S.B. (the “Bank”) (collectively, the “Corporation”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) with respect to interim financial reporting. It is recommended that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s Annual Report on Form 10-K for the year ended June 30, 2017. The results of operations for the quarter and six months ended December 31, 2017 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2018.

Note 2: Accounting Standard Updates (“ASU”)

There have been no accounting standard updates or changes in the status of their adoption that are applicable to the Corporation as previously disclosed in Note 1 of the Corporation's Annual Report on Form 10-K for the year ended June 30, 2017, except the adoption of ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting)," beginning in fiscal 2018 which did not have a material impact on its condensed consolidated financial statements.

Note 3: (Loss) Earnings Per Share

Basic (loss) earnings per share (“EPS”) excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the entity.

As of December 31, 2017 and 2016, there were outstanding options to purchase 585,500 shares and 903,000 shares of the Corporation’s common stock, respectively. Of those shares, as of December 31, 2017 and 2016, there were 585,500 shares and 151,000 shares, respectively, which were excluded from the diluted EPS computation as their effect was anti-dilutive. As of December 31, 2017, there were outstanding restricted stock awards of 109,000 shares with no dilutive effect in the second quarter of fiscal 2018; and as of December 31, 2016, there were outstanding restricted stock awards of 105,000 shares which had a dilutive effect in the second quarter of fiscal 2017.

The following table provides the basic and diluted EPS computations for the quarters and six months ended December 31, 2017 and 2016, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarters Ended December 31,		For the Six Months Ended December 31,	
	2017	2016	2017	2016
Numerator:				
Net (loss) income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	$(777)	$1,504	$(1,002)	$3,098
Denominator:				
Denominator for basic earnings per share:				
Weighted-average shares	7,566	7,954	7,630	7,951
Effect of dilutive shares:				
Stock options	—	170	—	164
Restricted stock	—	21	—	35
Denominator for diluted earnings per share:				
Adjusted weighted-average shares and assumed conversions	7,566	8,145	7,630	8,150
Basic (loss) earnings per share	$(0.10)	$0.19	$(0.13)	$0.39
Diluted (loss) earnings per share	$(0.10)	$0.18	$(0.13)	$0.38

Note 4: Operating Segment Reports

The Corporation operates in two business segments: community banking through the Bank and mortgage banking through Provident Bank Mortgage ("PBM"), a division of the Bank.

The following tables set forth condensed consolidated statements of operations and total assets for the Corporation's operating segments for the quarters and six months ended December 31, 2017 and 2016, respectively.

	For the Quarter Ended December 31, 2017		
(In Thousands)	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$8,217	$534	$8,751
Recovery from the allowance for loan losses	(11)	—	(11)
Net interest income, after recovery from the allowance for loan losses	8,228	534	8,762
Non-interest income:			
Loan servicing and other fees [(1)]	108	209	317
Gain on sale of loans, net [(2)]	22	4,295	4,317
Deposit account fees	536	—	536
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(22)	—	(22)
Card and processing fees	373	—	373
Other	220	—	220
Total non-interest income	1,237	4,504	5,741
Non-interest expense:			
Salaries and employee benefits	4,449	4,184	8,633
Premises and occupancy	822	438	1,260
Operating and administrative expenses[(3)]	1,189	2,131	3,320
Total non-interest expense	6,460	6,753	13,213
Income (loss) before income taxes	3,005	(1,715)	1,290
Provision (benefit) for income taxes[(4)]	2,532	(465)	2,067
Net income (loss)	$473	$(1,250)	$(777)
Total assets, end of period	$1,065,204	$96,927	$1,162,131

(1) Includes an inter-company charge of $99 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $79 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(3) Includes $650,000 of litigation expense accrual for the second quarter of fiscal 2018, all of which was allocated to PBM.

(4) Includes a net tax charge of $1.8 million resulting from the revaluation of net deferred tax assets consistent with the Tax Cuts and Jobs Act for the quarter ended December 31, 2017.

(In Thousands)	For the Quarter Ended December 31, 2016 Provident Bank	 Provident Bank Mortgage	 Consolidated Totals
Net interest income	$7,821	$1,264	$9,085
Recovery from the allowance for loan losses	(346)	(4)	(350)
Net interest income after recovery from the allowance for loan losses	8,167	1,268	9,435
Non-interest income:			
Loan servicing and other fees [(1)]	250	60	310
Gain on sale of loans, net [(2)]	37	6,441	6,478
Deposit account fees	552	—	552
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(58)	(5)	(63)
Card and processing fees	361	—	361
Other	194	—	194
Total non-interest income	1,336	6,496	7,832
Non-interest expense:			
Salaries and employee benefits	4,642	5,707	10,349
Premises and occupancy	792	443	1,235
Operating and administrative expenses	1,152	1,932	3,084
Total non-interest expense	6,586	8,082	14,668
Income (loss) before income taxes	2,917	(318)	2,599
Provision (benefit) for income taxes	1,228	(133)	1,095
Net income (loss)	$1,689	$(185)	$1,504
Total assets, end of period	$1,035,158	$156,997	$1,192,155

(1) Includes an inter-company charge of $128 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $109 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(In Thousands)	For the Six Months Ended December 31, 2017 Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$16,767	$1,102	$17,869
Provision for loan losses	158	—	158
Net interest income, after provision for loan losses	16,609	1,102	17,711
Non-interest income:			
Loan servicing and other fees [1]	155	525	680
Gain on sale of loans, net [2]	22	9,142	9,164
Deposit account fees	1,094	—	1,094
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(62)	—	(62)
Card and processing fees	754	—	754
Other	463	—	463
Total non-interest income	2,426	9,667	12,093
Non-interest expense:			
Salaries and employee benefits	8,951	8,951	17,902
Premises and occupancy	1,649	925	2,574
Operating and administrative expenses[3]	3,440	5,031	8,471
Total non-interest expense	14,040	14,907	28,947
Income (loss) before income taxes	4,995	(4,138)	857
Provision (benefit) for income taxes[4]	3,343	(1,484)	1,859
Net income (loss)	$1,652	$(2,654)	$(1,002)
Total assets, end of period	$1,065,204	$96,927	$1,162,131

(1) Includes an inter-company charge of $339 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $138 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(3) Includes $3.4 million of litigation accrual expense for the first six months of fiscal 2018, of which $2.1 million was allocated to PBM.

(4) Includes a net tax charge of $1.8 million resulting from the revaluation of net deferred tax assets consistent with the Tax Cuts and Jobs Act for the six months ended December 31, 2017.

(In Thousands)	For the Six Months Ended December 31, 2016 Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$15,396	$2,777	$18,173
Recovery from the allowance for loan losses	(310)	(190)	(500)
Net interest income, after recovery from the allowance for loan losses	15,706	2,967	18,673
Non-interest income:			
Loan servicing and other fees [1]	319	258	577
Gain on sale of loans, net [2]	38	14,436	14,474
Deposit account fees	1,102	—	1,102
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(163)	(3)	(166)
Card and processing fees	725	—	725
Other	372	—	372
Total non-interest income	2,393	14,691	17,084
Non-interest expense:			
Salaries and employee benefits	9,536	12,127	21,663
Premises and occupancy	1,648	876	2,524
Operating and administrative expenses	2,299	3,814	6,113
Total non-interest expense	13,483	16,817	30,300
Income before income taxes	4,616	841	5,457
Provision for income taxes	2,005	354	2,359
Net income	$2,611	$487	$3,098
Total assets, end of period	$1,035,158	$156,997	$1,192,155

(1) Includes an inter-company charge of $223 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $168 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

Note 5: Investment Securities

The amortized cost and estimated fair value of investment securities as of December 31, 2017 and June 30, 2017 were as follows:

As of December 31, 2017 (In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
Held to maturity:					
Certificates of deposit	$ 600	$ —	$ —	$ 600	$ 600
U.S. government sponsored enterprise MBS [(1)]	87,026	147	437	86,736	87,026
Total investment securities - held to maturity	$ 87,626	$ 147	$ 437	$ 87,336	$ 87,626
Available for sale:					
U.S. government agency MBS	$ 4,678	$ 181	$ —	$ 4,859	$ 4,859
U.S. government sponsored enterprise MBS	2,977	150	—	3,127	3,127
Private issue CMO [(2)]	413	6	—	419	419
Total investment securities - available for sale	$ 8,068	$ 337	$ —	$ 8,405	$ 8,405
Total investment securities	$ 95,694	$ 484	$ 437	$ 95,741	$ 96,031

(1) Mortgage-Backed Securities (“MBS”).
(2) Collateralized Mortgage Obligations (“CMO”).

As of June 30, 2017 (In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
Held to maturity:					
Certificates of deposit	$ 600	$ —	$ —	$ 600	$ 600
U.S. government sponsored enterprise MBS	59,841	265	77	60,029	59,841
Total investment securities - held to maturity	$ 60,441	$ 265	$ 77	$ 60,629	$ 60,441
Available for sale:					
U.S. government agency MBS	$ 5,197	$ 186	$ —	$ 5,383	$ 5,383
U.S. government sponsored enterprise MBS	3,301	173	—	3,474	3,474
Private issue CMO	456	5	—	461	461
Total investment securities - available for sale	$ 8,954	$ 364	$ —	$ 9,318	$ 9,318
Total investment securities	$ 69,395	$ 629	$ 77	$ 69,947	$ 69,759

In the second quarters of fiscal 2018 and 2017, the Corporation received MBS principal payments of $5.8 million and $3.2 million, respectively, and there were no sales of investment securities during these periods. The Corporation purchased U.S. government sponsored enterprise MBS totaling $28.4 million, to be held to maturity, during the second quarter of fiscal 2018 and no purchases were made during the second quarter of fiscal 2017. For the first six months of fiscal 2018 and 2017, the Corporation received MBS principal payments of $11.7 million and $7.3 million, respectively, and there were no sales of investment securities during these periods. In the first six months of fiscal 2018, the Corporation purchased U.S. government sponsored enterprise MBS totaling $38.5 million, to be held to maturity, and none were purchased in the first six months of fiscal 2017.

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The Corporation held investments with an unrealized loss position of $437,000 at December 31, 2017 and $77,000 at June 30, 2017.

As of December 31, 2017 (In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held to maturity:						
U.S. government sponsored enterprise MBS	$71,893	$ 437	$ —	$ —	$71,893	$ 437
Total investment securities	$71,893	$ 437	$ —	$ —	$71,893	$ 437

As of June 30, 2017 (In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held to maturity:						
U.S. government sponsored enterprise MBS	$28,722	$ 77	$ —	$ —	$28,722	$ 77
Total investment securities	$28,722	$ 77	$ —	$ —	$28,722	$ 77

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of December 31, 2017 and June 30, 2017, the unrealized holding losses were for a term of less than 12 months. The Corporation does not believe that there are any other-than-temporary impairments on the investment securities at December 31, 2017 and 2016; therefore, no impairment losses were recorded for the quarters and six months ended December 31, 2017 and 2016.

Contractual maturities of investment securities as of December 31, 2017 and June 30, 2017 were as follows:

(In Thousands)	December 31, 2017 Amortized Cost	December 31, 2017 Estimated Fair Value	June 30, 2017 Amortized Cost	June 30, 2017 Estimated Fair Value
Held to maturity:				
Due in one year or less	$600	$ 600	$600	$ 600
Due after one through five years	11,036	11,002	4,698	4,708
Due after five through ten years	43,596	43,286	41,404	41,374
Due after ten years	32,394	32,448	13,739	13,947
Total investment securities - held to maturity	$87,626	$ 87,336	$60,441	$ 60,629
Available for sale:				
Due in one year or less	$—	$ —	$—	$ —
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—
Due after ten years	8,068	8,405	8,954	9,318
Total investment securities - available for sale	$8,068	$ 8,405	$8,954	$ 9,318
Total investment securities	$95,694	$ 95,741	$69,395	$ 69,947

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Note 6: Loans Held for Investment

Loans held for investment, net of fair value adjustments, consisted of the following:

(In Thousands)	December 31, 2017	June 30, 2017
Mortgage loans:		
Single-family	$313,837	$322,197
Multi-family	463,786	479,959
Commercial real estate	103,366	97,562
Construction	14,430	16,009
Commercial business loans	478	576
Consumer loans	144	129
Total loans held for investment, gross	896,041	916,432
Undisbursed loan funds	(7,358)	(9,015)
Advance payments of escrows	46	61
Deferred loan costs, net	5,322	5,480
Allowance for loan losses	(8,075)	(8,039)
Total loans held for investment, net	$885,976	$904,919

The following table sets forth information at December 31, 2017 regarding the dollar amount of loans held for investment that are contractually repricing during the periods indicated, segregated between adjustable rate loans and fixed rate loans. Fixed-rate loans comprised 2 percent of loans held for investment at both December 31, 2017 and June 30, 2017. Adjustable rate loans having no stated repricing dates that reprice when the index they are tied to reprices (e.g. prime rate index) and checking account overdrafts are reported as repricing within one year. The table does not include any estimate of prepayments which may cause the Corporation's actual repricing experience to differ materially from that shown.

(In Thousands)	Adjustable Rate					
	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Fixed Rate	Total
Mortgage loans:						
Single-family	$152,732	$23,887	$73,968	$51,007	$12,243	$313,837
Multi-family	117,609	169,374	160,034	14,216	2,553	463,786
Commercial real estate	27,941	38,106	31,511	5,220	588	103,366
Construction	12,527	—	—	—	1,903	14,430
Commercial business loans	46	—	—	—	432	478
Consumer loans	144	—	—	—	—	144
Total loans held for investment, gross	$310,999	$231,367	$265,513	$70,443	$17,719	$896,041

The Corporation has developed an internal loan grading system to evaluate and quantify the Bank's loans held for investment portfolio with respect to quality and risk. Management continually evaluates the credit quality of the Corporation's loan portfolio and conducts a quarterly review of the adequacy of the allowance for loan losses using quantitative and qualitative methods. The Corporation has adopted an internal risk rating policy in which each loan is rated for credit quality with a rating of pass, special mention, substandard, doubtful or loss. The two primary components that are used during the loan review process to determine the proper allowance levels are individually evaluated allowances and collectively evaluated allowances. Quantitative loan loss factors are developed by determining the historical loss experience, expected future cash flows, discount rates and collateral fair values, among other components. Qualitative loan loss factors are developed by assessing general economic indicators such as gross domestic product, retail sales, unemployment rates, employment growth, California home sales and median California home prices. The Corporation assigns individual factors for the quantitative and qualitative methods for each loan category and each internal risk rating.

The Corporation categorizes all of the loans held for investment into risk categories based on relevant information about the ability of the borrower to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. A description of the general characteristics of the risk grades is as follows:

Pass - These loans range from minimal credit risk to average, but still acceptable, credit risk. The likelihood of loss is considered remote.
Special Mention - A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the bank is currently protected and loss is considered unlikely and not imminent.
Substandard - A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
Doubtful - A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.
Loss - A loss loan is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted.

The following tables summarize gross loans held for investment, net of fair value adjustments, by loan types and risk category at the dates indicated:

	December 31, 2017						
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Pass	$302,868	$ 463,786	$ 103,366	$ 10,734	$ 402	$ 144	$881,300
Special Mention	2,842	—	—	926	—	—	3,768
Substandard	8,127	—	—	2,770	76	—	10,973
Total loans held for investment, gross	$313,837	$ 463,786	$ 103,366	$ 14,430	$ 478	$ 144	$896,041

	June 30, 2017						
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Pass	$310,738	$ 479,687	$ 97,361	$ 16,009	$ 496	$ 129	$904,420
Special Mention	3,443	272	—	—	—	—	3,715
Substandard	8,016	—	201	—	80	—	8,297
Total loans held for investment, gross	$322,197	$ 479,959	$ 97,562	$ 16,009	$ 576	$ 129	$916,432

The allowance for loan losses is maintained at a level sufficient to provide for estimated losses based on evaluating known and inherent risks in the loans held for investment and upon management’s continuing analysis of the factors underlying the quality of the loans held for investment. These factors include changes in the size and composition of the loans held for investment, actual loan loss experience, current economic conditions, detailed analysis of individual loans for which full collectability may not be assured, and determination of the realizable value of the collateral securing the loans. The provision (recovery) for (from) the allowance for loan losses is charged (credited) against operations on a quarterly basis, as necessary, to maintain the allowance at appropriate levels. Although management believes it uses the best information available to make such determinations, there can be no assurance that regulators, in reviewing the Corporation's loans held for investment, will not request a significant increase in its allowance for loan losses. Future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected as a result of economic, operating, regulatory, and other conditions beyond the Corporation's control.

Non-performing loans are charged-off to their fair market values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For loans that were modified from their original terms, were re-underwritten and identified in the Corporation's asset quality reports as troubled debt restructurings ("restructured loans"), the charge-off occurs when the loan becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. The allowance for loan losses for non-performing loans is determined by applying Accounting Standards Codification ("ASC") 310, "Receivables." For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations still in their restructuring period, classified lower than pass, and containing an embedded loss component or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method. For non-performing commercial real estate loans, an individually evaluated allowance is derived based on the loan's discounted cash flow fair value (for restructured loans) or collateral fair value less estimated selling costs and if the fair value is higher than the loan balance, no allowance is required.

The following table summarizes the Corporation's allowance for loan losses at December 31, 2017 and June 30, 2017:

(In Thousands)	December 31, 2017	June 30, 2017
Collectively evaluated for impairment:		
Mortgage loans:		
Single-family	$ 3,303	$3,515
Multi-family	3,295	3,420
Commercial real estate	933	879
Construction	504	96
Commercial business loans	17	21
Consumer loans	8	7
Total collectively evaluated allowance	8,060	7,938
Individually evaluated for impairment:		
Mortgage loans:		
Single-family	—	86
Commercial business loans	15	15
Total individually evaluated allowance	15	101
Total loan loss allowance	$ 8,075	$8,039

The following table is provided to disclose additional details on the Corporation's allowance for loan losses:

(Dollars in Thousands)	For the Quarters Ended December 31, 2017	2016	For the Six Months Ended December 31, 2017	2016
Allowance at beginning of period	$8,063	$8,725	$8,039	$8,670
(Recovery) provision for loan losses	(11)	(350)	158	(500)
Recoveries:				
Mortgage loans:				
Single-family	48	33	132	296
Multi-family	—	6	—	13
Consumer loans	—	—	—	1
Total recoveries	48	39	132	310
Charge-offs:				
Mortgage loans:				
Single-family	(25)	(21)	(254)	(87)
Consumer loans	—	(2)	—	(2)
Total charge-offs	(25)	(23)	(254)	(89)
Net recoveries (charge-offs)	23	16	(122)	221
Balance at end of period	$8,075	$8,391	$8,075	$8,391
Allowance for loan losses as a percentage of gross loans held for investment at the end of the period	0.90%	0.96%	0.90%	0.96%
Net (recoveries) charge-offs as a percentage of average loans receivable, net, during the period (annualized)	(0.01)%	(0.01)%	0.02%	(0.04)%

The following tables denote the past due status of the Corporation's gross loans held for investment, net of fair value adjustments, at the dates indicated.

(In Thousands)	December 31, 2017 Current	30-89 Days Past Due	Non-Accrual [(1)]	Total Loans Held for Investment
Mortgage loans:				
Single-family	$304,173	$1,537	$ 8,127	$ 313,837
Multi-family	463,786	—	—	463,786
Commercial real estate	103,366	—	—	103,366
Construction	14,430	—	—	14,430
Commercial business loans	402	—	76	478
Consumer loans	144	—	—	144
Total loans held for investment, gross	$886,301	$1,537	$ 8,203	$ 896,041

(1) All loans 90 days or greater past due are placed on non-accrual status.

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(In Thousands)	June 30, 2017 Current	30-89 Days Past Due	Non-Accrual [(1)]	Total Loans Held for Investment
Mortgage loans:				
Single-family	$313,146	$1,035	$ 8,016	$ 322,197
Multi-family	479,959	—	—	479,959
Commercial real estate	97,361	—	201	97,562
Construction	16,009	—	—	16,009
Commercial business loans	496	—	80	576
Consumer loans	129	—	—	129
Total loans held for investment, gross	$907,100	$1,035	$ 8,297	$ 916,432

(1) All loans 90 days or greater past due are placed on non-accrual status.

The following tables summarize the Corporation's allowance for loan losses and recorded investment in gross loans, by portfolio type, at the dates and for the periods indicated.

(In Thousands)	Quarter Ended December 31, 2017 Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Allowance for loan losses:							
Allowance at beginning of period	$3,579	$3,431	$875	$ 140	$ 31	$ 7	$8,063
(Recovery) provision for loan losses	(299)	(136)	58	364	1	1	(11)
Recoveries	48	—	—	—	—	—	48
Charge-offs	(25)	—	—	—	—	—	(25)
Allowance for loan losses, end of period	$3,303	$3,295	$933	$ 504	$ 32	$ 8	$8,075
Allowance for loan losses:							
Individually evaluated for impairment	$—	$—	$—	$ —	$ 15	$ —	$15
Collectively evaluated for impairment	3,303	3,295	933	504	17	8	8,060
Allowance for loan losses, end of period	$3,303	$3,295	$933	$ 504	$ 32	$ 8	$8,075
Loans held for investment:							
Individually evaluated for impairment	$7,038	$—	$—	$ —	$ 76	$ —	$7,114
Collectively evaluated for impairment	306,799	463,786	103,366	14,430	402	144	888,927
Total loans held for investment, gross	$313,837	$463,786	$103,366	$ 14,430	$ 478	$ 144	$896,041
Allowance for loan losses as a percentage of gross loans	1.05 %	0.71 %	0.90 %	3.49 %	6.69 %	5.56 %	0.90 %

held for investment

	Quarter Ended December 31, 2016							
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Allowance for loan losses:								
Allowance at beginning of period	$4,575	$3,186	$854	$53	$7	$42	$8	$8,725
(Recovery) provision for loan losses	(304)	(36)	(18)	12	(1)	(5)	2	(350)
Recoveries	33	6	—	—	—	—	—	39
Charge-offs	(21)	—	—	—	—	—	(2)	(23)
Allowance for loan losses, end of period	$4,283	$3,156	$836	$65	$6	$37	$8	$8,391
Allowance for loan losses:								
Individually evaluated for impairment	$97	$—	$—	$—	$—	$15	$—	$112
Collectively evaluated for impairment	4,186	3,156	836	65	6	22	8	8,279
Allowance for loan losses, end of period	$4,283	$3,156	$836	$65	$6	$37	$8	$8,391
Loans held for investment:								
Individually evaluated for impairment	$7,844	$374	$—	$—	$—	$85	$—	$8,303
Collectively evaluated for impairment	308,751	448,091	98,044	16,872	265	525	184	872,732
Total loans held for investment, gross	$316,595	$448,465	$98,044	$16,872	$265	$610	$184	$881,035
Allowance for loan losses as a percentage of gross loans held for investment	1.35%	0.70%	0.85%	0.39%	2.26%	6.07%	4.35%	0.96%

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	Six Months Ended December 31, 2017						
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Allowance for loan losses:							
Allowance at beginning of period	$3,601	$3,420	$879	$96	$36	$7	$8,039
(Recovery) provision for loan losses	(176)	(125)	54	408	(4)	1	158
Recoveries	132	—	—	—	—	—	132
Charge-offs	(254)	—	—	—	—	—	(254)
Allowance for loan losses, end of period	$3,303	$3,295	$933	$504	$32	$8	$8,075
Allowance for loan losses:							
Individually evaluated for impairment	$—	$—	$—	$—	$15	$—	$15
Collectively evaluated for impairment	3,303	3,295	933	504	17	8	8,060
Allowance for loan losses, end of period	$3,303	$3,295	$933	$504	$32	$8	$8,075
Loans held for investment:							
Individually evaluated for impairment	$7,038	$—	$—	$—	$76	$—	$7,114
Collectively evaluated for impairment	306,799	463,786	103,366	14,430	402	144	888,927
Total loans held for investment, gross	$313,837	$463,786	$103,366	$14,430	$478	$144	$896,041
Allowance for loan losses as a percentage of gross loans held for investment	1.05%	0.71%	0.90%	3.49%	6.69%	5.56%	0.90%

	Six Months Ended December 31, 2016							
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Allowance for loan losses:								
Allowance at beginning of period	$4,933	$2,800	$848	$31	$7	$43	$8	$8,670
(Recovery) provision for loan losses	(859)	343	(12)	34	(1)	(6)	1	(500)
Recoveries	296	13	—	—	—	—	1	310
Charge-offs	(87)	—	—	—	—	—	(2)	(89)
Allowance for loan losses, end of period	$4,283	$3,156	$836	$65	$6	$37	$8	$8,391
Allowance for loan losses:								
Individually evaluated for impairment	$97	$—	$—	$—	$—	$15	$—	$112
Collectively evaluated for impairment	4,186	3,156	836	65	6	22	8	8,279
Allowance for loan losses, end of period	$4,283	$3,156	$836	$65	$6	$37	$8	$8,391
Loans held for investment:								
Individually evaluated for impairment	$7,844	$374	$—	$—	$—	$85	$—	$8,303
Collectively evaluated for impairment	308,751	448,091	98,044	16,872	265	525	184	872,732
Total loans held for investment, gross	$316,595	$448,465	$98,044	$16,872	$265	$610	$184	$881,035
Allowance for loan losses as a percentage of gross loans held for investment	1.35%	0.70%	0.85%	0.39%	2.26%	6.07%	4.35%	0.96%

The following tables identify the Corporation's total recorded investment in non-performing loans by type at the dates and for the periods indicated. Generally, a loan is placed on non-accrual status when it becomes 90 days past due as to principal or interest or if the loan is deemed impaired, after considering economic and business conditions and collection efforts, where the borrower's financial condition is such that collection of the contractual principal or interest on the loan is doubtful. In addition, interest income is not recognized on any loan where management has determined that collection is not reasonably assured. A non-performing loan may be restored to accrual status when delinquent principal and interest payments are brought current, the borrower(s) has demonstrated sustained payment performance and future monthly principal and interest payments are expected to be collected on a timely basis. Loans with a related allowance reserve have been individually evaluated for impairment using either a discounted cash flow analysis or, for collateral dependent loans, current appraisals less costs to sell, to establish realizable value. This analysis may identify a specific impairment amount needed or may conclude that no reserve is needed. Loans that are not individually evaluated for impairment are included in pools of homogeneous loans for evaluation of related allowance reserves.

	At December 31, 2017				
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$1,126	$ —	$ 1,126	$ (240)	$ 886
Without a related allowance[2]	7,951	(913)	7,038	—	7,038
Total single-family	9,077	(913)	8,164	(240)	7,924
Commercial business loans:					
With a related allowance	76	—	76	(15)	61
Total commercial business loans	76	—	76	(15)	61
Total non-performing loans	$9,153	$ (913)	$ 8,240	$ (255)	$ 7,985

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan, and fair value adjustments.
(2) There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

	At June 30, 2017				
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$1,821	$ —	$ 1,821	$ (325)	$ 1,496
Without a related allowance[2]	7,119	(886)	6,233	—	6,233
Total single-family	8,940	(886)	8,054	(325)	7,729
Commercial real estate:					
Without a related allowance[2]	201	—	201	—	201
Total commercial real estate	201	—	201	—	201
Commercial business loans:					
With a related allowance	80	—	80	(15)	65
Total commercial business loans	80	—	80	(15)	65
Total non-performing loans	$9,221	$ (886)	$ 8,335	$ (340)	$ 7,995

[1] Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan, and fair value
adjustments.
[2] There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

At both December 31, 2017 and June 30, 2017, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

For the quarters ended December 31, 2017 and 2016, the Corporation's average recorded investment in non-performing loans was $8.2 million and $10.6 million, respectively. The Corporation records payments on non-performing loans utilizing the cash basis or cost recovery method of accounting during the periods when the loans are on non-performing status. For both quarters ended December 31, 2017 and 2016, interest income of $10,000 and $34,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans and $80,000 and $68,000, respectively, was collected and applied to reduce the loan balances under the cost recovery method. Forgone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to $35,000 and $37,000 for the quarters ended December 31, 2017 and 2016, respectively, and was not included in the results of operations.

For the six months ended December 31, 2017 and 2016, the Corporation's average recorded investment in non-performing loans was $8.4 million and $11.0 million, respectively. For the six months ended December 31, 2017 and 2016, interest income of $170,000 and $103,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans and $174,000 and $136,000, respectively, was collected and applied to reduce the loan balances under the cost recovery method. Forgone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to $84,000 and $76,000 for the six months ended December 31, 2017 and 2016, respectively, and was not included in the results of operations.

The following tables present the average recorded investment in non-performing loans and the related interest income recognized for the quarters and six months ended December 31, 2017 and 2016:

	Quarter Ended December 31,			
	2017		2016	
(In Thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without related allowances:				
Mortgage loans:				
Single-family	$7,301	$ —	$7,458	$ 1
Multi-family	—	—	375	—
	7,301	—	7,833	1
With related allowances:				
Mortgage loans:				
Single-family	786	8	2,578	19
Multi-family	—	—	92	12
Commercial business loans	76	2	88	2
	862	10	2,758	33
Total	$8,163	$ 10	$10,591	$ 34

	Six Months Ended December 31,			
	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without related allowances:				
Mortgage loans:				
Single-family	$7,659	$ 135	$7,771	$ 37
Multi-family	—	—	377	—
Commercial real estate	34	13	—	—
	7,693	148	8,148	37
With related allowances:				
Mortgage loans:				
Single-family	608	19	2,517	46
Multi-family	—	—	279	17
Commercial business loans	77	3	91	3
	685	22	2,887	66

Total	$8,378	$ 170	$11,035	$ 103

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For the quarters and six months ended December 31, 2017 and 2016, there were no loans that were newly modified from their original terms, re-underwritten or identified in the Corporation's asset quality reports as restructured loans. During the quarters and six months ended December 31, 2017 and 2016, no restructured loans were in default within a 12-month period subsequent to their original restructuring. Additionally, during the quarters and six months ended December 31, 2017 and 2016, there were no loans whose modification was extended beyond the initial maturity of the modification, except for one commercial business loan with an outstanding balance of $85,000 which was extended for two years during the second quarter of fiscal 2017. At both December 31, 2017 and June 30, 2017, there were no commitments to lend additional funds to those borrowers whose loans were restructured.

As of December 31, 2017, the Corporation held 12 restructured loans with a net outstanding balance of $4.4 million: two were classified as special mention on accrual status ($962,000); and 10 were classified as substandard ($3.5 million, all on non-accrual status). As of June 30, 2017, the Corporation held 10 restructured loans with a net outstanding balance of $3.6 million: one was classified as special mention on accrual status ($506,000); and nine were classified as substandard ($3.1 million, all on non-accrual status). Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets that do not currently expose the Corporation to sufficient risk to warrant adverse classification but possess weaknesses are designated as special mention and are closely monitored by the Corporation. As of December 31, 2017 and June 30, 2017, $2.8 million or 64 percent, and $1.7 million or 46 percent, respectively, of the restructured loans were current with respect to their modified payment terms.

The Corporation upgrades restructured single-family loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months; 12 months for those loans that were restructured more than once; and if the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan. In addition to the payment history described above, multi-family, commercial real estate, construction and commercial business loans (which are sometimes referred to in this report as "preferred loans") must also demonstrate a combination of the following characteristics to be upgraded: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among other characteristics.

To qualify for restructuring, a borrower must provide evidence of their creditworthiness such as, current financial statements, their most recent income tax returns, current paystubs, current W-2s, and most recent bank statements, among other documents, which are then verified by the Corporation. The Corporation re-underwrites the loan with the borrower's updated financial information, new credit report, current loan balance, new interest rate, remaining loan term, updated property value and modified payment schedule, among other considerations, to determine if the borrower qualifies.

The following table summarizes at the dates indicated the restructured loan balances, net of allowance for loan losses, by loan type and non-accrual versus accrual status:

(In Thousands)	At December 31, 2017	At June 30, 2017
Restructured loans on non-accrual status:		
Mortgage loans:		
Single-family	$ 3,416	$ 3,061
Commercial business loans	61	65
Total	3,477	3,126
Restructured loans on accrual status:		
Mortgage loans:		
Single-family	962	506

Total	962	506
Total restructured loans	$ 4,439	$ 3,632

The following tables identify the Corporation's total recorded investment in restructured loans by type at the dates and for the periods indicated.

	At December 31, 2017				
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family:					
Without a related allowance[2]	$4,914	$ (536)	$ 4,378	$ —	$ 4,378
Total single-family	4,914	(536)	4,378	—	4,378
Commercial business loans:					
With a related allowance	76	—	76	(15)	61
Total commercial business loans	76	—	76	(15)	61
Total restructured loans	$4,990	$ (536)	$ 4,454	$ (15)	$ 4,439

[1] Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
[2] There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

	At June 30, 2017				
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family					
With a related allowance	$485	$ —	$ 485	$ (97)	$ 388
Without a related allowance[2]	3,618	(439)	3,179	—	3,179
Total single-family	4,103	(439)	3,664	(97)	3,567
Commercial business loans:					
With a related allowance	80	—	80	(15)	65
Total commercial business loans	80	—	80	(15)	65
Total restructured loans	$4,183	$ (439)	$ 3,744	$ (112)	$ 3,632

[1] Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
[2] There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

During the quarter ended December 31, 2017, one property was acquired in the settlement of loans, while no previously foreclosed upon properties were sold. This compares to the quarter ended December 31, 2016 when no properties were acquired in the settlement of loans, while two previously foreclosed upon properties were sold. For the six months ended December 31, 2017, one property was acquired in the settlement of loans, while two previously foreclosed upon properties were sold. This compares

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to the six months ended December 31, 2016 when three properties were acquired in the settlement of loans, while three previously foreclosed upon properties were sold. As of December 31, 2017, there was one outstanding real estate owned property located in California with a net fair value of $621,000. This compares to the real estate owned with a net fair value of $1.6 million at June 30, 2017, comprised of one property located in California and one property located in Arizona. A new appraisal was obtained on each of the properties at the time of foreclosure and fair value was derived by using the lower of the appraised value or the listing price of the property, net of selling costs. Any initial loss was recorded as a charge to the allowance for loan losses before being transferred to real estate owned. Subsequent to transfer to real estate owned, if there is further deterioration in real estate values, specific real estate owned loss reserves are established and charged to the statement of operations. In addition, the Corporation records costs to carry real estate owned as real estate operating expenses as incurred.

Note 7: Derivative and Other Financial Instruments with Off-Balance Sheet Risks

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines of credit, loan sale commitments to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. As of December 31, 2017 and June 30, 2017, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of $57.7 million and $111.8 million, respectively.

The following table provides information at the dates indicated regarding undisbursed funds to borrowers on existing lines of credit with the Corporation as well as commitments to originate loans to be held for investment at the dates indicated below.

Commitments (In Thousands)	December 31, 2017	June 30, 2017
Undisbursed loan funds – Construction loans	$ 7,358	$9,015
Undisbursed lines of credit – Commercial business loans	559	646
Undisbursed lines of credit – Consumer loans	525	562
Commitments to extend credit on loans to be held for investment	9,702	19,119
Total	$ 18,144	$29,342

The following table provides information regarding the allowance for loan losses for the undisbursed funds and commitments to extend credit on loans to be held for investment for the quarters and six months ended December 31, 2017 and 2016.

	For the Quarters Ended December 31,		For the Six Months Ended December 31,	
(In Thousands)	2017	2016	2017	2016
Balance, beginning of the period	$213	$173	$277	$204
Recovery	(25)	—	(89)	(31)

Balance, end of the period	$188	$173	$188	$173

In accordance with ASC 815, "Derivatives and Hedging," and interpretations of the Derivatives Implementation Group of the FASB, the fair value of the commitments to extend credit on loans to be held for sale, loan sale commitments, to be announced ("TBA") MBS trades, put option contracts and call option contracts are recorded at fair value on the Condensed Consolidated Statements of Financial Condition. At December 31, 2017, $739,000 was included in other assets and $228,000 was included in other liabilities; at June 30, 2017, $1.5 million was included in other assets and $38,000 was included in other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

The net impact of derivative financial instruments is recorded within the gain on sale of loans contained in the Condensed Consolidated Statements of Operations during the quarters and six months ended December 31, 2017 and 2016 were as follows:

Derivative Financial Instruments	For the Quarters Ended December 31, 2017	2016	For the Six Months Ended December 31, 2017	2016
(In Thousands)				
Commitments to extend credit on loans to be held for sale	$29	$(1,098)	$(93)	$(2,309)
Mandatory loan sale commitments and TBA MBS trades	(582)	1,068	(791)	2,865
Option contracts, net	—	366	(37)	344
Total net (loss) gain	$(553)	$336	$(921)	$900

The outstanding derivative financial instruments and other loan sale agreements at the dates indicated were as follows:

Derivative Financial Instruments	December 31, 2017 Amount	Fair Value	June 30, 2017 Amount	Fair Value
(In Thousands)				
Commitments to extend credit on loans to be held for sale [(1)]	$48,032	$716	$92,726	$809
Best efforts loan sale commitments	(12,890)	—	(17,225)	—
Mandatory loan sale commitments and TBA MBS trades	(121,575)	(205)	(179,777)	586
Option contracts, net	—	—	(3,000)	37
Total	$(86,433)	$511	$(107,276)	$1,432

(1) Net of 30.6 percent at December 31, 2017 and 25.7 percent at June 30, 2017 of commitments which management has estimated may not fund.

Note 8: Fair Value of Financial Instruments

The Corporation adopted ASC 820, “Fair Value Measurements and Disclosures,” and elected the fair value option pursuant to ASC 825, “Financial Instruments” on loans originated for sale by PBM. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 825 permits entities to elect to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the “Fair Value Option”) at specified election dates. At each subsequent reporting date, an entity is required to report unrealized gains and losses on items in earnings for which the fair value option has been elected. The objective of the Fair Value Option is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

The following table describes the difference at the dates indicated between the aggregate fair value and the aggregate unpaid principal balance of loans held for investment at fair value and loans held for sale at fair value:

(In Thousands)	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Net Unrealized (Loss) Gain
As of December 31, 2017:			
Loans held for investment, at fair value	$ 5,157	$ 5,362	$ (205)
Loans held for sale, at fair value	$ 96,589	$ 93,449	$ 3,140
As of June 30, 2017:			
Loans held for investment, at fair value	$ 6,445	$ 6,696	$ (251)
Loans held for sale, at fair value	$ 116,548	$ 112,940	$ 3,608

ASC 820-10-65-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” provides additional guidance for estimating fair value in accordance with ASC 820, “Fair Value Measurements,” when the volume and level of activity for the asset or liability have significantly decreased.

ASC 820 establishes a three-level valuation hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

Level 1	-	Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
Level 2	-	Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.
Level 3	-	Unobservable inputs for the asset or liability that use significant assumptions, including assumptions of risks. These unobservable assumptions reflect the Corporation’s estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow models and similar techniques.

ASC 820 requires the Corporation to maximize the use of observable inputs and minimize the use of unobservable inputs. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation.

The Corporation’s financial assets and liabilities measured at fair value on a recurring basis consist of investment securities available for sale, loans held for investment at fair value, loans held for sale at fair value, interest-only strips and derivative financial instruments; while non-performing loans, mortgage servicing assets ("MSA") and real estate owned are measured at fair value on a nonrecurring basis.

Investment securities - available for sale are primarily comprised of U.S. government agency MBS and U.S. government sponsored enterprise MBS. The Corporation utilizes quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS and debt securities (Level 2) and broker price indications for similar securities in non-active markets for its fair value measurement of the CMO (Level 3).

Derivative financial instruments are comprised of commitments to extend credit on loans to be held for sale, mandatory loan sale commitments, TBA MBS trades and option contracts. The fair value of TBA MBS trades is determined using quoted secondary-market prices (Level 2). The fair values of other derivative financial instruments are determined by quoted prices for a similar commitment or commitments, adjusted for the specific attributes of each commitment (Level 3).

Loans held for investment at fair value are primarily single-family loans which have been transferred from loans held for sale. The fair value is determined by the quoted secondary-market prices which account for interest rate characteristics, and are then adjusted for management estimates of the specific credit risk attributes of each loan (Level 3).

Loans held for sale at fair value are primarily single-family loans. The fair value is determined, when possible, using quoted secondary-market prices such as mandatory loan sale commitments. If no such quoted price exists, the fair value of a loan is determined by quoted prices for a similar loan or loans, adjusted for the specific attributes of each loan (Level 2).

Non-performing loans are loans which are inadequately protected by the current net worth and paying capacity of the borrowers or of the collateral pledged. The non-performing loans are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. The fair value of a non-performing loan is determined based on an observable market price or current appraised value of the underlying collateral. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the borrower. For non-performing loans which are restructured loans, the fair value is derived from discounted cash flow analysis (Level 3), except those which are in the process of foreclosure or 90 days delinquent for which the fair value is derived from the appraised value of its collateral (Level 2). For other non-performing loans which are not restructured loans, other than non-performing commercial real estate loans, the fair value is derived from relative value analysis: historical experience and management estimates by loan type for which collectively evaluated allowances are assigned (Level 3); or the appraised value of its collateral for loans which are in the process of foreclosure or where borrowers file bankruptcy (Level 2). For non-performing commercial real estate loans, the fair value is derived from the appraised value of its collateral (Level 2). Non-performing loans are reviewed and evaluated on at least a quarterly basis for additional allowance and adjusted accordingly, based on the same factors identified above. This loss is not recorded directly as an adjustment to current earnings or other comprehensive income (loss), but rather as a component in determining the overall adequacy of the allowance for loan losses. These adjustments to the estimated fair value of non-performing loans may result in increases or decreases to the provision for loan losses recorded in current earnings.

The Corporation uses the amortization method for its MSA, which amortizes the MSA in proportion to and over the period of estimated net servicing income and assesses the MSA for impairment based on fair value at each reporting date. The fair value of MSA is derived using the present value method; which includes a third party's prepayment projections of similar instruments, weighted-average coupon rates and the estimated average life (Level 3).

The rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. The fair value of interest-only strips is derived using the same assumptions that are used to value the related MSA (Level 3).

The fair value of real estate owned is derived from the lower of the appraised value or the listing price, net of estimated selling costs (Level 2).

The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following fair value hierarchy tables present information at the dates indicated about the Corporation's assets measured at fair value on a recurring basis:

(In Thousands)	Fair Value Measurement at December 31, 2017 Using: Level 1	Level 2	Level 3	Total
Assets:				
Investment securities - available for sale:				
U.S. government agency MBS	$ —	$ 4,859	$ —	$ 4,859
U.S. government sponsored enterprise MBS	—	3,127	—	3,127
Private issue CMO	—	—	419	419